

**RUSSELLVILLE INDEPENDENT
SCHOOL DISTRICT**

FINANCIAL STATEMENTS

June 30, 2005

CONTENTS

Independent Auditors' Report.....	1
Required Supplementary Information:	
Management's Discussion and Analysis	4
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	18
Statement of Activities	20
Fund Financial Statements:	
Balance Sheet – Governmental Funds	22
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	24
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	25
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	27
Statement of Net Assets – Proprietary Funds	28
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	29
Statement of Cash Flows – Proprietary Funds	30
Statement of Fiduciary Net Assets – Fiduciary Funds.....	32
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	33
Notes to the Financial Statements	34

Required Supplemental Information:

Budgetary Comparison Schedule for the General Fund.....	58
Budgetary Comparison Schedule for the Special Revenue Fund.....	60

Supplemental Information:

Combining Balance Sheet – Nonmajor Governmental Funds	63
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	64
Statement of Net Assets — Nonmajor Proprietary Funds	66
Statement of Revenues, Expenses and Changes in Fund Net Assets — Nonmajor Proprietary Funds.....	67
Statement of Revenues, Expenditures and Changes in Fund Balances – United Way 2005.....	68
Statement of Revenues, Expenditures and Changes in Fund Balances – United Way 2004.....	69
Statement of Revenues, Expenditures and Changes in Fund Balances – United Way 2002.....	70
Combining Statement of Assets and Liabilities – All School Activity Funds – All Agency Funds	71
Statement of Assets and Liabilities – School Activity Funds – Russellville High School	72
Schedule of Expenditures of Federal Awards	74
Notes to the Schedule of Expenditures of Federal Awards.....	76
Summary Schedule of Prior Year Audit Findings	77
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	78
Independent Auditors’ Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance In Accordance With OMB Circular A-133.....	80
Schedule of Findings and Questioned Costs.....	83



INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Russellville Independent School District
Russellville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the ***Russellville Independent School District*** (the "District") as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position and cash

927 College Street ♦ PO Box 104
Bowling Green, KY 42102-0104
(270) 782-0700 ♦ Fax: (270) 782-0932
1-888-896-5000

167 South Main Street
Russellville, KY 42276
(270) 726-7151 ♦ Fax: (270) 726-3155
1-888-240-7151

flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2005 on our consideration of **Russellville Independent School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 16 and 58 through 61 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Russellville Independent School District's** basic financial statements. The combining and individual nonmajor fund financial statements and additional information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the **Russellville Independent School District**. The combining and individual nonmajor fund financial statements, other additional information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Holland CPAs, PSC

Russellville, Kentucky
August 10, 2005

Required Supplemental Information

Management's Discussion and Analysis



**RUSSELLVILLE INDEPENDENT SCHOOL
DISTRICT
RUSSELLVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND
ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2005**

As management of the Russellville Independent School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- Based on the GASB 34 model of measuring net assets, the total net assets from Governmental activities increased 8.8% and the total net assets from Business type activities increased 42.9% for the fiscal year ended June 30, 2005. The result was an increase in the total net assets of Governmental and Business type activities of 10.1%.
- Total expenses related to governmental activities were \$9,669,413, of which \$1,906,640 was offset by operating and capital grants and contributions. General revenues, including property taxes, utility taxes and state funding, provide the balance of the expenditures.
- Since KERA reform in the early 1990's, the funding for computers and their replacement has steadily decreased. In the current year, the state funded the KETS Technology Grant at \$13.80 per student, totaling \$14,987. Over the past two years, the District has evaluated the use of state and local technology funds. We have made a decision to divert spending on technology-related service contracts to spending on new computers and computer-related systems. In 2005, with the help of a \$132,139 grant, written by the middle school principal and awarded by the E. R. Carpenter Foundation, the District replaced and/or added approximately 200 computers. We are currently investigating ways to better use technology in the classroom.
- During the current fiscal year, the District sold bonds and partially refunded the 1996 bond issue. The issuance of \$1,535,000 in General Obligation Bonds refinances \$1,435,000 in General Obligation Bonds from 1996. Due to the significantly lower interest rates, the present savings to the District is \$71,934.

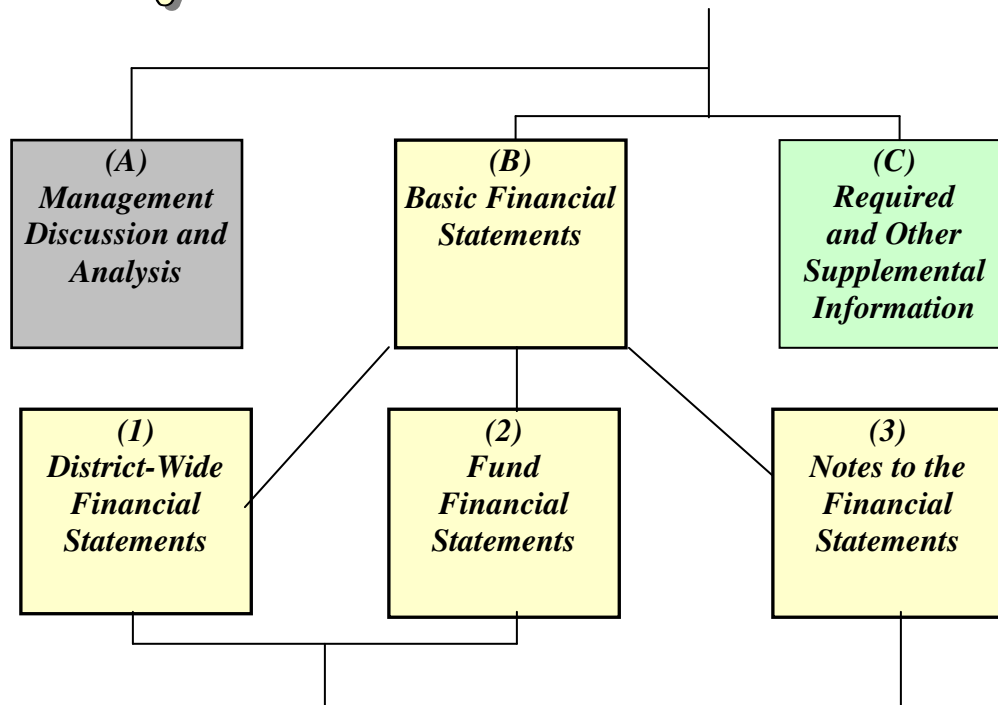


- In the current year, the District's net investment earnings have increased 18% over the prior year. The 37% decrease in the prior year was due primarily to a decline in interest rates. Because of the interest rate risk on portfolio investments, the District's management is currently moving all investments into a liquid cash position.
- In 2005, the financial statements reflect a total of \$1,588,315 of revenues and aid from the state for payments made by the state on-behalf of District employees for retirement contributions, Vocational School Education and health insurance. These payments are not paid directly to the district but are benefits of the district paid by the state "on-behalf" of the district.
- While the governmental fund revenues of the District have increased by \$198,894 (excluding on-behalf payments), the general fund revenue has increased \$118,456 (excluding on-behalf payments). The main challenge of our district as well as other Independent Districts is the decline in student enrollment. The increase in the state per pupil funding was offset by a decrease of 10.4 students being funded. District management is aggressively taking steps to become more efficient in its operations. School management is aggressively taking steps to change school atmosphere.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT (AFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Russellville Independent School District as a financial whole or, in other words, an entire operating entity, in a manner similar to a private-sector business. The annual report consists of three parts: (A) management's discussion and analysis (this section) [pages 4–16], (B) the basic financial statements and notes [pages 18–56], and (C) required and other supplemental information [pages 58–76]. The statements provide an increasingly detailed look at specific financial activities. The District's basic financial statements comprise three components: 1) government-wide financial statements [pages 18–21], 2) fund financial statements [pages 22–33], and 3) notes to the financial statements [pages 34–56]. This report also contains other supplementary information in addition to the basic financial statements themselves.

Organization of the Annual Financial Report



The Government-Wide Financial Statements have two sections (1) the *Statement of Net Assets* and (2) the *Statement of Activities*. The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's major funds with all other non-major funds presented in total in one column.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

REPORTING THE SCHOOL DISTRICT AS A WHOLE

One of the most important questions asked about the District is "How did we do financially during 2005?" The *Statement of Net Assets* and the *Statements of Activities*, which appear first in the District's financial statements, report information on the District as a whole and its activities in a way that helps answer this question. These statements include *all assets* and *liabilities* using the



accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader the financial position of the District as a whole has improved or diminished. However, the District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as Kentucky's SEEK funding formula and its adjustments, the District's property tax base and required educational programs and other factors.

In the Statement of Net Assets and the Statements of Activities, the District is divided into two distinct kinds of activities:

- Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities. The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). Fixed assets and related debt is also supported by taxes and intergovernmental revenues.
- Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District's food service is reported as business activities. These activities are funded through fees, federal grants, and federal commodities.

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District's financial position, total assets exceeded liabilities by \$5,001,881 and \$4,544,067 as of June 30, 2005 and 2004, respectively.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment), less any outstanding related debt (\$3,296,213) used to acquire those assets. The District uses these capital assets to provide services to its students; so consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt (\$2,824,981), it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.



REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

After looking at the District as a whole, an analysis of the major funds follows. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are assets that belong to others. The school's activity funds and scholarship trust account are reported as fiduciary funds. The school food service and community education funds are reported as proprietary funds. A proprietary fund is sometimes referred to as an enterprise fund. It is a fund that operates like a business with sales of goods and services. All other activities of the District are included in the governmental funds. The major governmental funds for the Russellville Independent School District are the general fund, special revenue (grants), and Capital Outlay (SEEK).

Governmental Funds – Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statements of Activities) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match. The proprietary funds are our food service operations and community education.

Fiduciary Funds – The schools' activity funds (or agency funds) and the scholarship trust account are the District's only fiduciary funds. At June 30, 2005 the asset balances of the schools' activity accounts and the scholarship trust account are \$111,867 and \$24,856 respectively.



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

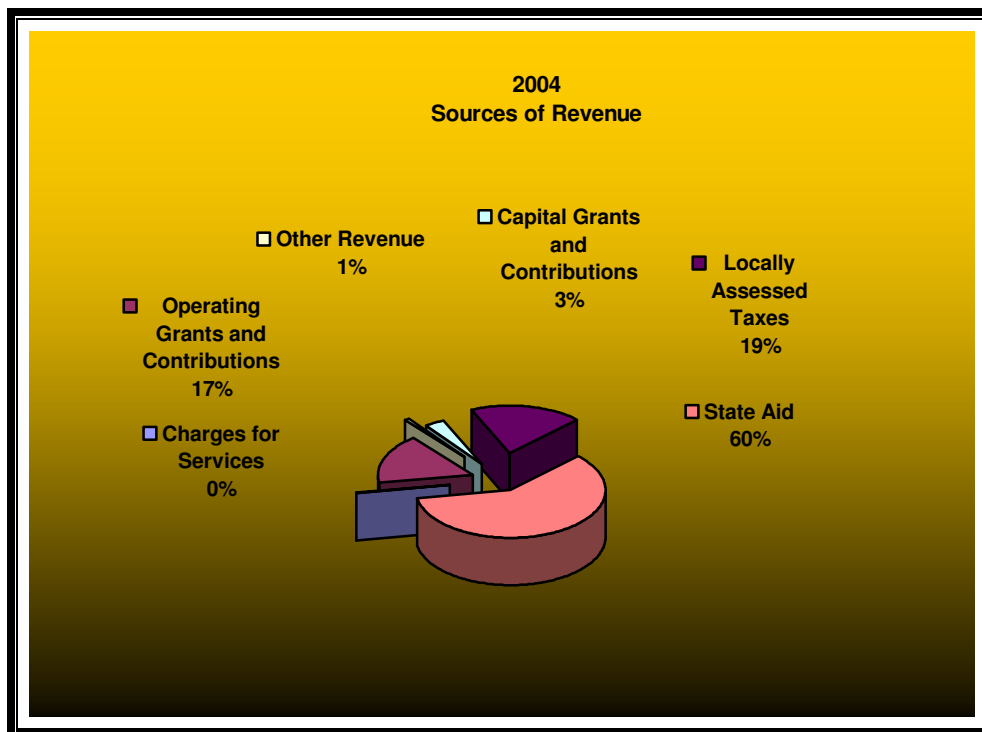
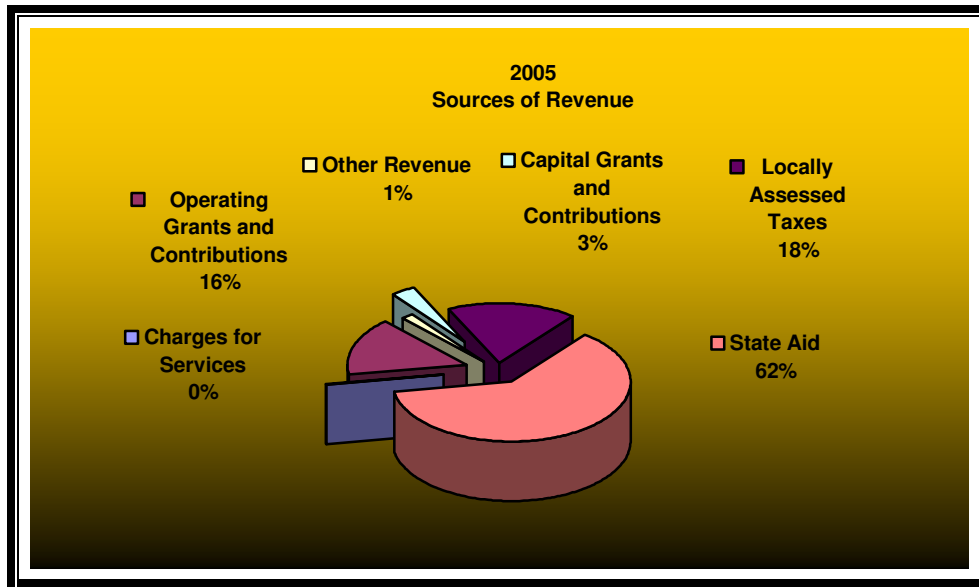
Net Assets for the Fiscal Years Ended June 30, 2005 and 2004

	Governmental Activities		Business-Type Activities		District Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 2,462,537	\$ 2,391,740	\$ 199,233	\$ 123,605	\$ 2,661,770	\$ 2,515,345
Capital assets	6,015,312	6,059,668	42,697	45,788	6,058,009	6,105,456
Total assets	<u>8,477,849</u>	<u>8,451,408</u>	<u>241,930</u>	<u>169,393</u>	<u>8,719,779</u>	<u>8,620,801</u>
Long-term obligations	3,181,034	3,420,975			3,181,034	3,420,975
Other liabilities	536,864	655,688		71	536,864	655,759
Total liabilities	<u>3,717,898</u>	<u>4,076,663</u>	<u>-</u>	<u>71</u>	<u>3,717,898</u>	<u>4,076,734</u>
Net Assets						
Invested in capital assets, net						
of related debt	2,782,284	2,614,534	42,697	45,788	2,824,981	2,660,322
Restricted	291,635	279,196			291,635	279,196
Unrestricted	1,686,032	1,481,015	199,233	123,534	1,885,265	1,604,549
Total Net Assets	<u>\$ 4,759,951</u>	<u>\$ 4,374,745</u>	<u>\$ 241,930</u>	<u>\$ 169,322</u>	<u>\$ 5,001,881</u>	<u>\$ 4,544,067</u>

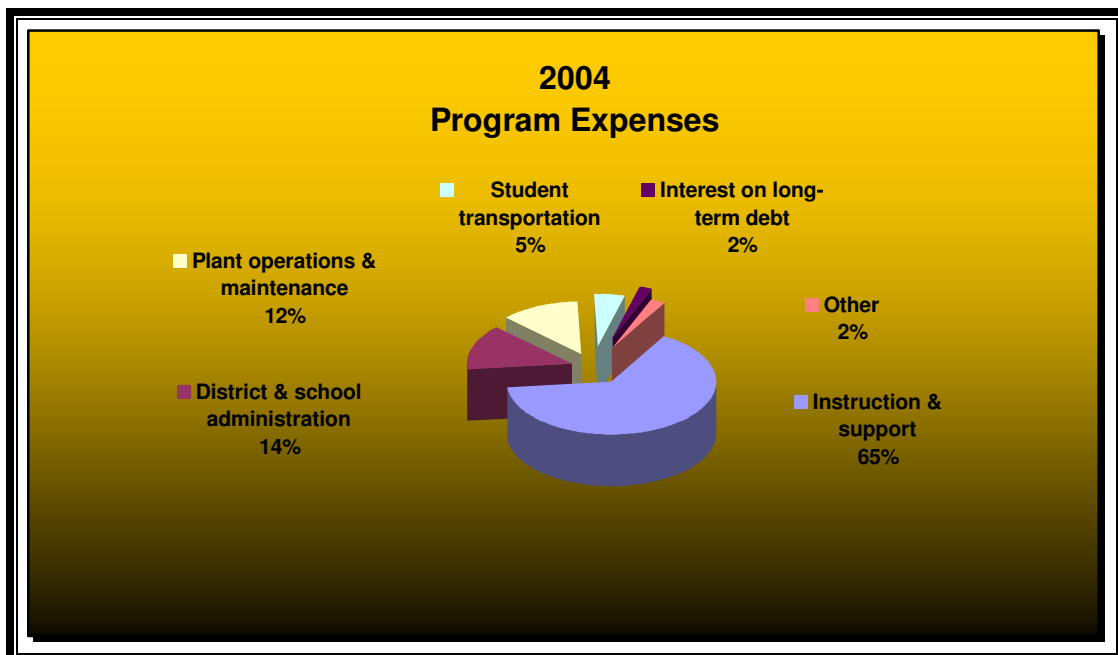
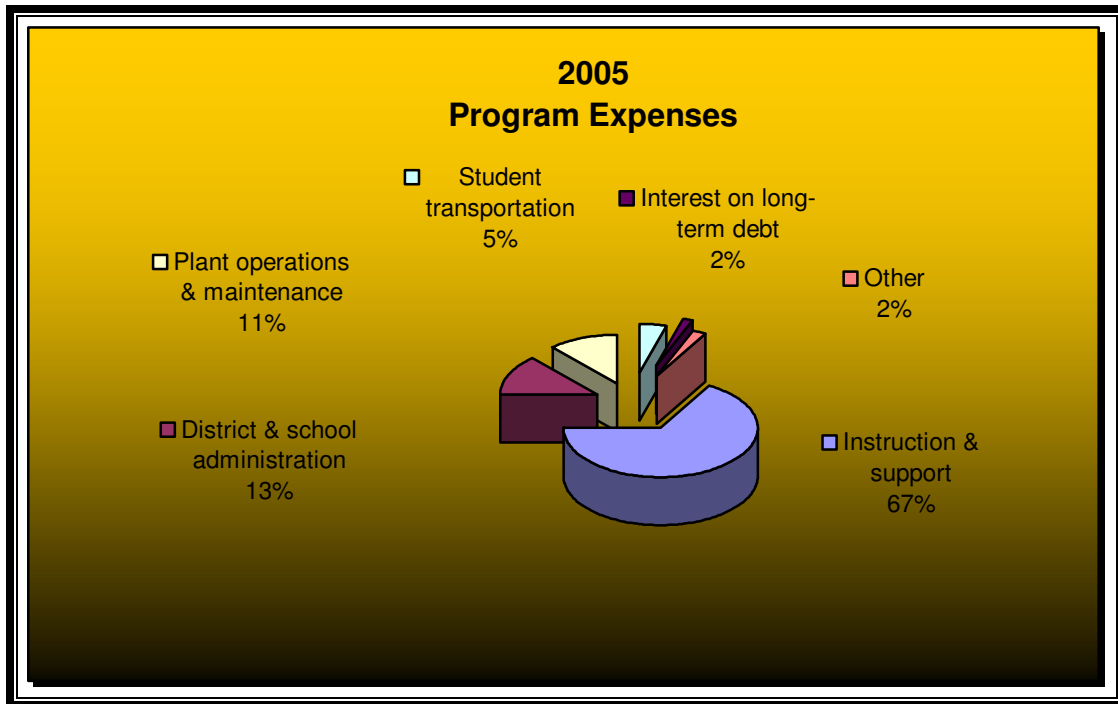
Changes in Net Assets for the Fiscal Year Ended June 30, 2005 and 2004

	Governmental Activities		Business-Type Activities		District Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues						
Charges for services	\$ 34,275	\$ 30,283	\$ 205,383	\$ 170,628	\$ 239,658	\$ 200,911
Operating grants and contributions	1,567,490	1,528,533	391,121	347,502	1,958,611	1,876,035
Capital grants and contributions	339,150	300,090			339,150	300,090
General Revenue						
Taxes						
Locally Assessed Taxes	1,774,020	1,768,577			1,774,020	1,768,577
State Aid	6,191,952	5,532,043			6,191,952	5,532,043
Other Revenue	147,732	98,375	8,909	2,089	156,641	100,464
Total revenues	<u>10,054,619</u>	<u>9,257,901</u>	<u>605,413</u>	<u>520,219</u>	<u>10,660,032</u>	<u>9,778,120</u>
Expenses						
Instruction & support	6,459,419	5,649,046			6,459,419	5,649,046
District & school administration	1,286,387	1,190,397			1,286,387	1,190,397
Plant operations & maintenance	1,108,032	1,060,327			1,108,032	1,060,327
Student transportation	440,421	419,978			440,421	419,978
Interest on long-term debt	165,414	167,330			165,414	167,330
Other	209,740	194,217	5,189	5,688	214,929	199,905
Food service			527,616	481,694	527,616	481,694
Total expenses	<u>9,669,413</u>	<u>8,681,295</u>	<u>532,805</u>	<u>487,382</u>	<u>10,202,218</u>	<u>9,168,677</u>
Change in net assets	<u>\$ 385,206</u>	<u>\$ 576,606</u>	<u>\$ 72,608</u>	<u>\$ 32,837</u>	<u>\$ 457,814</u>	<u>\$ 609,443</u>

Total Governmental Funds Revenues for the Fiscal Years Ended June 30, 2005 and 2004



Total Governmental Funds Expenses for the Fiscal Years Ended June 30, 2005 and 2004



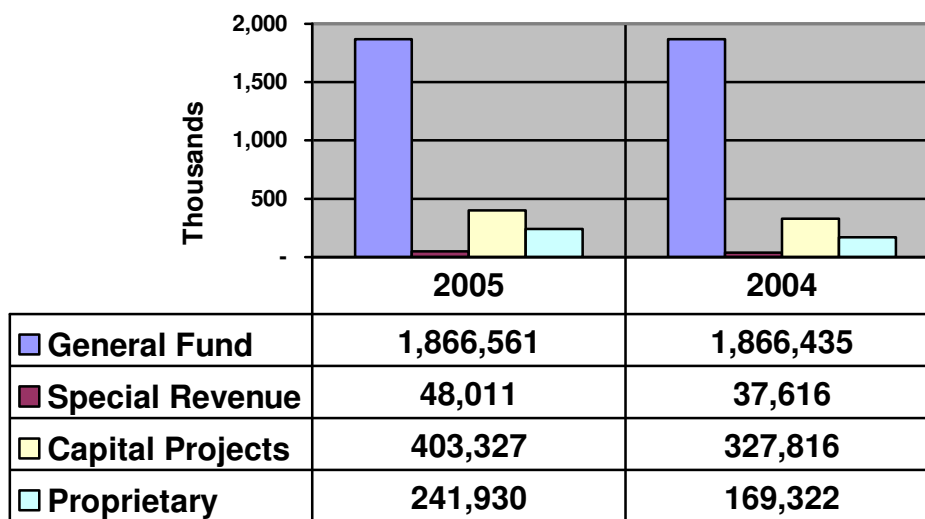


Using the GASB 34 model of measuring revenue and expenses, the District's total revenues were \$10,660,032 and the total expenses were \$10,202,218. For the year ended 2005, the revenues exceeded expenses by \$457,814. Locally generated revenues remained approximately the same with a slight decrease. The basis of the Kentucky Education Reform Act (KERA) was to fund school systems based on an average student attendance. State aid increased due to an increase in per pupil student funding and an increase in the "on-behalf" benefits paid by the state. In smaller Districts where the local property tax base is less, the state equalizes the revenues by increasing the state's portion of the District's funding. The District's state aid includes a rental paid by the state for the use of the District's Vocational School Building.

All school principals and staff were given budgets and freedom to work within those budgets. Using the MUNIS accounting system, the District's administration monitored and approved the procurement of all purchases prior to the ordering. The close monitoring of all cost and vendors resulted in significant savings to the District.

The financial position of the school food service has significantly improved during the past two school years. The food service director with the cooperation of the food service staff and school principals, have been given the responsibility of operating a self-sustaining food service program. The continued increase in profitability is due to significant increases in breakfast participation, a la carte sales, and cost control measures. The primary cost control measure was the centralization of food ordering for the District. With this increase in profitability, the food service program paid for the director's salary and was not supplemented by the General Fund, with the exception of small maintenance items.

Comparative Financial Analysis of the District's Fund Balances





The General Fund balance increased \$126. During the current year, the District was financially able to purchase a bus for \$60,375 with cash. In prior years, the District financed buses through the KISTA bus leasing program. Among the reasons for the District's current financial stability are a better use of federal and state funds, the adherence to a new and better procurement policy and conservative spending. The Special Revenue Fund decrease of \$10,395 was due to normal changes in the local grants and the KETS grant. A combination of the Capital Project Funds (i.e. Capital Outlay, Building Fund and Construction Fund) changed \$75,511 due to the excess funding available from the state SEEK formula for building construction, renovation and bond payments. In the prior year, the District accepted an offer from the School Facilities Construction Commission (SFCC). By accepting the offer, the commission has agreed to assist the District with \$66,408 of annual debt service over 20 years. In return, the District set aside in total \$242,278 from the Capital Outlay and Building Funds. The District may use the bonding power of these funds to fund the construction of a priority one project(s) on the District's facilities plan. The State's offer of assistance is available and good for four years.

General Fund Budgetary Highlights

In accordance with directive from the Kentucky Department of Education (DOE) and Kentucky statutes, the District's funds budgets are prepared to account for most transactions on a cash receipt / cash disbursement / encumbrance basis. The DOE requires a budget in which any budgeted remaining fund balance is shown as a contingency expense and any amounts being accumulated for other purposes ultimately is shown as unspent or over-budgeted expenditures. Over the course of the year, the District revises the annual operating budget as circumstances dictate or as required by the DOE. The District's original and final General Fund Budgets are comparable with minimal changes compared to actual. In local revenues, the original budget estimates were conservatively prepared. The major difference in the original Special Revenue fund budget to the final budget was an increase in a local grant received for the purchase of instructional computers and software.

In the *Budgetary Comparison Schedule for the General Fund* contained in the *Required Supplemental Information*, the budget did not include \$1,588,315 of state payment on-behalf of District employees for retirement and health benefits. These payments are reflected in the actual (GAAP basis) amounts as state program revenues. An equal expenditure was apportioned in relation to wages paid, with the major portion contained in instructional expenditures. Additionally, local revenues were conservatively budgeted for a favorable variance.

Capital Asset and Debt Administration

Capital Assets:

By June 30, 2005, the District had invested \$6,058,009, net of depreciation, in capital assets. This includes land, school buildings, athletic facilities, computer equipment, equipment, vehicles and administrative offices. The cumulative total of assets was \$12,483,265 with accumulated depreciation of \$6,425,256. The current year activity resulted in no individually significant asset purchase or disposal. The following table summarizes the original cost of the capital assets, asset additions and asset disposals.



SUMMARY OF CAPITAL ASSETS

	Governmental Activities		Business-Type Activities		District Totals	
	2005	2004	2005	2004	2005	2004
Land and improvements	1,067,978	1,058,033			1,067,978	1,058,033
Buildings and improvements	8,745,801	8,735,180			8,745,801	8,735,180
Equipment and vehicles	2,439,657	2,194,305	229,829	223,277	2,669,486	2,417,582
	<u>12,253,436</u>	<u>11,987,518</u>	<u>229,829</u>	<u>223,277</u>	<u>12,483,265</u>	<u>12,210,795</u>

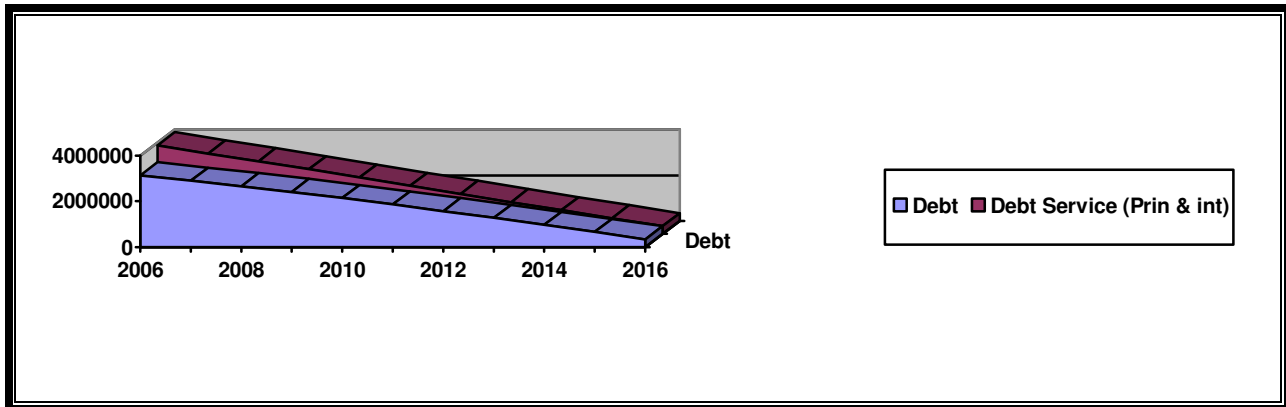
Long-Term Debt:

At year-end the District had \$3,145,000 in general obligation bonds outstanding. The long-term debt was decreased \$115,000 or 3.5% over last year. The following table represents the current debt schedule of the District.

SUMMARY OF LONG-TERM DEBT

Series	Purpose	Governmental Activities 2005	Governmental Activities 2004	Increase (Decrease)
Series 1996	Construction of media centers at each school.	105,000	1,590,000	(1,485,000)
Series 1998	Partial refunding of Series 1991.			
	Preschool and gym construction at elementary school.	595,000	680,000	(85,000)
Series 2001 KISTA	HVAC and paving improvements at high school. Roof and paving improvement at elementary school.	590,000	630,000	(40,000)
Series 2001R KISTA	Accessibility improvements and roofing at middle school.	225,000	255,000	(30,000)
Series 2002 KISTA	Flooring at middle school.	95,000	105,000	(10,000)
Series 2004	Construction of media centers at each school.	1,535,000	-	1,535,000
		<u>\$ 3,145,000</u>	<u>\$ 3,260,000</u>	<u>\$ (115,000)</u>

The following table represents the current maturities and debt service cash flows (principal and interest) of the District.



DISTRICT CHALLENGES FOR THE FUTURE

It is extremely important that the District continue to budget very conservatively. The District receives approximate 56% of its general fund revenue each year through the state funding formula (SEEK). The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state does not receive the revenue from taxing sources, an adjustment will be made to the funding formula. The District should always be prepared for such reductions in funding.

Approximately 20.6% of the general fund revenue is from local property tax. The major portion of the tax revenue does not come to the District until the fifth to seventh month of the fiscal year. This means the general fund's beginning fund balance must be used to absorb much of the first four months of expenditures. Provisions must always be made to have a significant fund beginning balance to start each year. The District has an ending General Fund balance of \$1,866,561 or 18.7% of the total governmental funds actual expenditures as a beginning balance for next year.

The District's tax base increased \$12,549,420 or 5.3%. The increase was in part due to development on the western edge of the taxing district and reassessment of commercial property across the district. Increases in the tax base are not sustainable; therefore, the District's administration is taking an active role in conserving its resources. The school's administration, as well as school staff, is working to improve school attendance. The schools are working in concert to improve student achievement and test scores. The District receives funding through the SEEK formula based on the attendance count. There are a very limited number of new homes constructed within the boundaries of the District. Therefore, growth within the District is limited. It is vital that our schools have high attendance percentages and that parents and students continue to choose Russellville Independent Schools when they could be attending elsewhere. Maintaining excellence and emphasizing serving the public are the main factors influencing this District challenge.

Russellville Independent School District
Russellville, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005



This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Mr. Roger Cook, Superintendent or Mr. Mark Coursey, Director of Finance (270)726-8405, 355 South Summer Street, Russellville, Kentucky 42276. Their e-mail addresses are roger.cook@rville.k12.ky.us or mcoursey@rville.k12.ky.us.

Basic Financial Statements

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2005

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
ASSETS			
Cash.....	\$ 2,302,867	\$ 191,997	\$ 2,494,864
Investments	37,728	0	37,728
Accounts receivable:			
Taxes.....	64,034	0	64,034
Accounts.....	681	0	681
Intergovernmental.....	24,850	0	24,850
Inventory	0	7,236	7,236
Prepaid expenses	18,555	0	18,555
Bond issuance cost:.....	14,550	0	14,550
Less: accumulated amortization	(728)	0	(728)
Non-depreciated capital assets.....	209,570	0	209,570
Depreciable capital assets	12,043,866	229,829	12,273,695
Less: accumulated depreciation	(6,238,124)	(187,132)	(6,425,256)
TOTAL ASSETS	<u>8,477,849</u>	<u>241,930</u>	<u>8,719,779</u>
LIABILITIES			
Accounts payable.....	77,682	0	77,682
Accrued liabilities	1,718	0	1,718
Deferred revenue.....	51,416	0	51,416
Accrued interest.....	34,736	0	34,736
Long-term obligations:			
Due within one year:			
Outstanding bonds.....	235,000	0	235,000
Other	33,386	0	33,386
Compensated absences	102,926	0	102,926
Due beyond one year:			
Outstanding bonds.....	2,846,815	0	2,846,815
Other	117,827	0	117,827
Compensated absences	216,392	0	216,392
TOTAL LIABILITIES	<u>3,717,898</u>	<u>0</u>	<u>3,717,898</u>

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
NET ASSETS			
Invested in capital assets, net of related debt	2,782,284	42,697	2,824,981
Restricted for:			
SFCC.....	242,278	0	242,278
Future construction.....	42,295	0	42,295
Debt service.....	7,062	0	7,062
Unrestricted	1,686,032	199,233	1,885,265
TOTAL NET ASSETS	\$ 4,759,951	\$ 241,930	\$ 5,001,881

See accompanying notes to the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES							
Instruction.....	\$ 5,466,934	\$ 7,680	\$ 1,107,510	\$ 30,116	\$ (4,321,628)	\$ 0	\$ (4,321,628)
Support Services:							
Student	455,209	0	59,538	0	(395,671)	0	(395,671)
Instructional staff.....	537,276	0	169,033	0	(368,243)	0	(368,243)
District administration.....	362,082	0	0	0	(362,082)	0	(362,082)
School administration.....	678,749	0	0	0	(678,749)	0	(678,749)
Business	245,556	0	0	0	(245,556)	0	(245,556)
Plant operations and maintenance	1,108,032	26,595	3,355	0	(1,078,082)	0	(1,078,082)
Student transportation.....	440,421	0	64,286	0	(376,135)	0	(376,135)
Other	209,740	0	163,768	0	(45,972)	0	(45,972)
Facilities acquisition and construction.....	0	0	0	309,034	309,034	0	309,034
Interest on long-term debt	165,414	0	0	0	(165,414)	0	(165,414)
TOTAL GOVERNMENTAL ACTIVITIES	9,669,413	34,275	1,567,490	339,150	(7,728,498)	0	(7,728,498)

BUSINESS-TYPE ACTIVITIES

Food services.....	527,616	200,694	391,121	0	0	64,199	64,199
Community education.....	5,189	4,689	0	0	0	(500)	(500)
TOTAL BUSINESS-TYPE ACTIVITIES	532,805	205,383	391,121	0	0	63,699	63,699
TOTAL SCHOOL DISTRICT	\$ 10,202,218	\$ 239,658	\$ 1,958,611	\$ 339,150	(7,728,498)	63,699	(7,664,799)

GENERAL REVENUES

Taxes:

Property.....	1,185,449	0	1,185,449
Motor vehicle	125,812	0	125,812
Utilities.....	393,034	0	393,034
Other	69,725	0	69,725
State aid	6,191,952	0	6,191,952
Investment earnings	68,923	3,409	72,332
Other	78,809	5,500	84,309
	8,113,704	8,909	8,122,613

CHANGE IN NET ASSETS..... 385,206 72,608 457,814

NET ASSETS — BEGINNING OF YEAR 4,374,745 169,322 4,544,067

NET ASSETS — END OF YEAR **\$ 4,759,951 \$ 241,930 \$ 5,001,881**

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	GENERAL FUND	SPECIAL REVENUE FUND	SEEK FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash	\$ 1,794,332	\$ 105,208	\$ 307,675	\$ 95,652	\$ 2,302,867
Investments	37,728	0	0	0	37,728
Accounts receivable:					
Taxes	64,034	0	0	0	64,034
Accounts	681	0	0	0	681
Intergovernmental	0	24,850	0	0	24,850
Prepaid expenses	18,555	0	0	0	18,555
TOTAL ASSETS	\$ 1,915,330	\$ 130,058	\$ 307,675	\$ 95,652	\$ 2,448,715

**LIABILITIES
AND FUND BALANCES**

LIABILITIES

Accounts payable	\$ 47,051	\$ 30,631	\$ 0	\$ 0	\$ 77,682
Accrued liabilities	1,718	0	0	0	1,718
Deferred revenue	0	51,416	0	0	51,416
TOTAL LIABILITIES	48,769	82,047	0	0	130,816

FUND BALANCES

Reserved for:					
Encumbrances	24,476	117,467	0	0	141,943
SFCC	0	0	195,983	46,295	242,278
Future construction	0	0	0	42,295	42,295
Debt service	0	0	0	7,062	7,062
Unreserved	1,842,085	(69,456)	111,692	0	1,884,321
TOTAL FUND BALANCES	1,866,561	48,011	307,675	95,652	2,317,899

**TOTAL LIABILITIES AND
FUND BALANCES**

\$ 1,915,330	\$ 130,058	\$ 307,675	\$ 95,652	\$ 2,448,715
---------------------	-------------------	-------------------	------------------	---------------------

**RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2005**

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS \$ 2,317,899

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported as assets in governmental funds. The
cost of the assets is \$12,253,436, and the accumulated depreciation is
\$6,238,124. 6,015,312

Bond issuance costs are not financial resources and, therefore, are not
reported as assets in governmental funds. The cost of the assets is \$14,550
and the accumulated amortization is \$728. 13,822

Long-term liabilities, including bonds payable, are not due and payable in the
current period and, therefore, are not reported as liabilities in the funds.
Long-term liabilities at year-end consist of:

Bonds payable	(3,081,815)
Accrued interest on the bonds	(34,736)
Other debt	(151,213)
Compensated absences	(319,318)

TOTAL NET ASSETS — GOVERNMENTAL ACTIVITIES **\$ 4,759,951**

See accompanying notes to the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

	GENERAL FUND	SPECIAL REVENUE FUND	SEEK FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
From local sources:					
Taxes:					
Property	\$ 1,067,142	\$ 0	\$ 0	\$ 118,307	\$ 1,185,449
Motor vehicle.....	125,812	0	0	0	125,812
Utilities	393,034	0	0	0	393,034
Other.....	69,725	0	0	0	69,725
Earnings on investments	59,369	143	4,350	5,061	68,923
Other local revenue	55,978	213,422	0	0	269,400
Intergovernmental – state	6,191,952	536,400	108,600	200,434	7,037,386
Intergovernmental – federal	57,106	847,784	0	0	904,890
TOTAL REVENUES	8,020,118	1,597,749	112,950	323,802	10,054,619
EXPENDITURES					
Current:					
Instruction	4,578,394	1,148,296	0	0	5,726,690
Support services:					
Student.....	392,877	59,538	0	0	452,415

Instructional staff.....	357,153	169,033	0	0	526,186
District administration.....	352,069	0	0	0	352,069
School administration.....	673,594	0	0	0	673,594
Business	245,484	0	0	0	245,484
Plant operations and maintenance.....	906,375	3,355	0	0	909,730
Student transportation.....	404,793	64,286	0	0	469,079
Other	45,972	163,768	0	0	209,740
Debt service:					
Principal.....	42,359	0	0	215,000	257,359
Interest.....	0	0	0	149,269	149,269
Bond issuance cost	0	0	0	14,550	14,550
TOTAL EXPENDITURES	7,999,070	1,608,276	0	378,819	9,986,165
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	21,048	(10,527)	112,950	(55,017)	68,454
OTHER FINANCING SOURCES (USES)					
Bond proceeds.....	0	0	0	1,515,813	1,515,813
Payment to refunded bonds escrow agent.....	0	0	0	(1,498,235)	(1,498,235)
Operating transfers	(20,922)	20,922	(45,529)	45,529	0
TOTAL OTHER FINANCING SOURCES (USES)	(20,922)	20,922	(45,529)	63,107	17,578
NET CHANGE IN FUND BALANCES.....	126	10,395	67,421	8,090	86,032
FUND BALANCES — BEGINNING OF YEAR	1,866,435	37,616	240,254	87,562	2,231,867
FUND BALANCES — END OF YEAR	\$ 1,866,561	\$ 48,011	\$ 307,675	\$ 95,652	\$ 2,317,899

See accompanying notes to the financial statements.

**RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005**

TOTAL NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS \$ 86,032

Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays are reported in governmental funds as expenditures. However,
in the statement of activities, the cost of those assets is allocated over their
estimated useful lives as depreciation expense. This is the amount by which
depreciation expense (\$360,640) exceeds capital outlays (\$316,284)
in the period. (44,356)

Repayment of bond principal and other debt is an expenditure in the
governmental funds, but the repayment reduces long-term liabilities in the
statement of net assets. 1,683,921

The net proceeds for the issuance of bonds provide current financial resources
and are reported in the fund financial statements, but they are presented as
liabilities in the statement of net assets. (1,452,578)

Expenditures reported in the fund financial statements are recognized when
the current financial resource is used. However, expenses in the statement
of activities are recognized when they are incurred relating to interest cost,
debt issuance cost and compensated absences. 112,187

CHANGE IN NET ASSETS — GOVERNMENTAL ACTIVITIES \$ 385,206

See accompanying notes to the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

	ENTERPRISE FUND FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
ASSETS			
CURRENT ASSETS			
Cash	\$ 190,777	\$ 1,220	\$ 191,997
Inventory	7,236	0	7,236
TOTAL CURRENT ASSETS	198,013	1,220	199,233
NON-CURRENT ASSETS			
Fixed assets – net.....	42,697	0	42,697
TOTAL ASSETS	\$ 240,710	\$ 1,220	\$ 241,930
NET ASSETS			
NET ASSETS			
Invested in capital assets, net of related debt.....	42,697	0	42,697
Unrestricted	198,013	1,220	199,233
TOTAL NET ASSETS	\$ 240,710	\$ 1,220	\$ 241,930

See accompanying notes to the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	ENTERPRISE FUND FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
OPERATING REVENUES			
Lunchroom sales	\$ 200,694	\$ 0	\$ 200,694
Tuition and fees	0	4,689	4,689
TOTAL OPERATING REVENUES	200,694	4,689	205,383
OPERATING EXPENSES			
Instruction	0	5,189	5,189
Salaries and wages	225,172	0	225,172
Contract services	22,324	0	22,324
Materials and supplies	267,721	0	267,721
Other operating expenses	256	0	256
Depreciation expense	12,143	0	12,143
TOTAL OPERATING EXPENSES	527,616	5,189	532,805
OPERATING LOSS	(326,922)	(500)	(327,422)
NON-OPERATING REVENUES			
State operating grants	7,860	0	7,860
Federal operating grants	350,818	0	350,818
Donated commodities	32,443	0	32,443
Interest revenue	3,409	0	3,409
Other	5,500	0	5,500
TOTAL NON-OPERATING REVENUES	400,030	0	400,030
CHANGE IN NET ASSETS	73,108	(500)	72,608
TOTAL NET ASSETS — BEGINNING OF YEAR	167,602	1,720	169,322
TOTAL NET ASSETS — END OF YEAR	\$ 240,710	\$ 1,220	\$ 241,930

See accompanying notes to the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	ENTERPRISE FUND FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from user charges	\$ 200,694	\$ 4,689	\$ 205,383
Cash payments to employees for services	(225,172)	0	(225,172)
Cash payments for contract services	(22,324)	0	(22,324)
Cash payments to suppliers for goods and services.....	(238,225)	0	(238,225)
Cash payments for other operating expenses	(256)	(5,260)	(5,516)
NET CASH USED IN OPERATING ACTIVITIES	<u>(285,283)</u>	<u>(571)</u>	<u>(285,854)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Nonoperating grants received.....	358,678	0	358,678
Other.....	5,500	0	5,500
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>364,178</u>	<u>0</u>	<u>364,178</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets.....	(9,052)	0	(9,052)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(9,052)</u>	<u>0</u>	<u>(9,052)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments.....	3,409	0	3,409
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,409</u>	<u>0</u>	<u>3,409</u>
NET INCREASE (DECREASE) IN CASH	73,252	(571)	72,681
CASH — BEGINNING OF YEAR	117,525	1,791	119,316
CASH — END OF YEAR	<u><u>\$ 190,777</u></u>	<u><u>\$ 1,220</u></u>	<u><u>\$ 191,997</u></u>

	ENTERPRISE FUND FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES			
Operating loss.....	\$ (326,922)	\$ (500)	\$ (327,422)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	12,143	0	12,143
Commodities used.....	32,443	0	32,443
Changes in assets and liabilities:			
Inventory	(2,947)	0	(2,947)
Accounts payable.....	0	(71)	(71)
NET CASH USED IN OPERATING ACTIVITIES	\$ (285,283)	\$ (571)	\$ (285,854)

See accompanying notes to the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2005

	<u>AGENCY FUNDS</u>	<u>PRIVATE PURPOSE TRUST FUND</u>
ASSETS		
ASSETS		
Cash.....	\$ 108,359	\$ 24,856
Accounts receivable.....	3,508	0
TOTAL ASSETS	<u>\$ 111,867</u>	<u>\$ 24,856</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 6,909	\$ 0
Due to student groups	104,958	0
TOTAL LIABILITIES	<u>111,867</u>	<u>0</u>
NET ASSETS		
Held in trust for scholarships	0	24,856
TOTAL NET ASSETS	<u>0</u>	<u>24,856</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 111,867</u>	<u>\$ 24,856</u>

See accompanying notes to the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2005

	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS	
Earnings on investments	\$ 564
TOTAL ADDITIONS	<u>564</u>
DEDUCTIONS	
Scholarships	500
TOTAL DEDUCTIONS	<u>500</u>
CHANGE IN NET ASSETS	64
NET ASSETS — BEGINNING OF YEAR	<u>24,792</u>
NET ASSETS — END OF YEAR	<u><u>\$ 24,856</u></u>

See accompanying notes to the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

● **Reporting Entity**

The Russellville Independent Board of Education (the "Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Russellville Independent School District (the "District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the operation of the Russellville Independent School District. In accordance with GASB Statement No. 39, the financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc., except for those funds administered as an activity in the Agency Funds.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization is included in the accompanying financial statements:

Russellville Independent School District Finance Corporation — The Russellville Independent Board of Education resolved to authorize the establishment of the Russellville Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Russellville Independent Board of Education also comprise the Corporation's Board of Directors.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Basis of Presentation**

Government-wide Financial Statements — The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

► **Governmental Fund Types**

The *General Fund* is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. The General Fund is a major fund.

The *Special Revenue Funds* account for proceeds of specific revenue sources (other than debt service, enterprise funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards included in this report. In addition, the Kentucky Education Technology System (KETS) allocation and local district matching funds

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

are being recorded in the special revenue fund as required by the Kentucky Department of Education. These funds are restricted for the purchase of technology consistent with the District's approved technology plan. The Special Revenue Fund is a major fund.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds) and to provide financial resources for debt service requirements.

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan. SEEK is a major fund.

The *Facility Support Program of Kentucky Fund (FSPK)* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction

The *Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost as required by Kentucky law.

► **Proprietary Fund Types**

Enterprise Funds

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

The *Community Education Fund* is used to account for local community education activities.

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

► **Fiduciary Fund Types** (includes agency funds and private purpose trust funds)

Fiduciary funds account for assets held by the District in a trustee's capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement.

Agency Funds

The *Activity Fund* accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

Private Purpose Trust Funds

The *Private Purpose Trust Fund* is used to report trust arrangements under which principal and income benefit individuals.

● **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

The records of the Board are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund, Special Revenue Fund and Capital Projects Funds.

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets.

The financial statements of the governmental fund types are on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

● **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances and disclosure of contingent assets and liabilities at the date of the

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

● **Investments**

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

● **Inventory**

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the Proprietary Funds, which records inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

● **Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25–50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5–10 years
Audio-visual equipment	15 years
Food service equipment	10–12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

● **Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Compensated Absences**

The District uses the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave time when earned for all employees with more than five years of service.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "*matured compensated absences payable*" in the funds from which the employees will be paid.

● **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the Government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

● **Fund Equity**

Reservations of fund balance represent amounts that are not appropriable or legally segregated for a specific purpose. Reservations of net assets are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

● **Property Taxes**

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September Board meeting. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

● **Revenues — Exchange and Nonexchange Transactions**

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivable are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September. On the modified accrual basis, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

● **Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

● **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

● **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

● **Encumbrance Accounting**

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2005. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

NOTE 2: CASH AND INVESTMENTS

● **Deposits**

At June 30, 2005, the carrying amounts of the District's deposits were \$2,628,079 and the bank balances were \$3,259,797, which was covered by federal depository insurance or by collateral held by the bank's agent in the District's name.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 2: CASH AND INVESTMENTS (Continued)

The carrying amounts are reflected in the financial statements as follows:

Governmental funds.....	\$ 2,302,867
Proprietary funds.....	191,997
Fiduciary funds.....	<u>133,215</u>
	<u>\$ 2,628,079</u>

► *Custodial Credit Risk-Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. However, the District is required by state statute that bank deposits must be collateralized. The District's bank balance of \$3,259,797 was not exposed to custodial credit risk as of June 30, 2005.

● **Investments**

<u>Investment</u>	<u>Rating</u>	<u>Maturities</u>	<u>Fair Value</u>
Money Market.....	—	On Demand	\$ 2,396
Federal Home Loan Mortgage Corporation	AAA	6/25/2023	6,193
Federal National Mortgage Association	AAA	10/25/2022	4,361
Federal National Mortgage Association Remic.....	AAA	3/25/2023	<u>24,778</u>
		Total	<u>\$ 37,728</u>

► *Interest Rate Risk*

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 2: CASH AND INVESTMENTS (Continued)

► *Credit Risk*

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds. The District has no investment policy that would further limit its investment choices.

► *Concentration of Credit Risk*

The District places no limit on the amount the District may invest in any one issuer. More than 5 percent of the District's investments are in Federal National Mortgage Association. These investments are 77% of the District's total investments.

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

		Capital Cost			
		Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:					
Capital assets that are not depreciated:					
Land		\$ 209,570	\$ 0	\$ 0	\$ 209,570
Total Nondepreciable Historical Cost		209,570	0	0	209,570

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 3: CAPITAL ASSETS (Continued)

	Capital Cost			
	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets that are depreciated:				
Land improvements.....	848,463	9,945	0	858,408
Buildings and improvements	8,735,180	10,621	0	8,745,801
Technology equipment	983,568	200,782	43,406	1,140,944
Vehicles.....	800,904	60,375	4,000	857,279
General	409,833	34,561	2,960	441,434
Total Depreciable Historical Cost	11,777,948	316,284	50,366	12,043,866
Less accumulated depreciation for:				
Land improvements.....	586,476	26,631	0	613,107
Buildings and improvements	3,593,356	198,050	0	3,791,406
Technology equipment	820,621	77,247	43,406	854,462
Vehicles.....	642,492	34,766	4,000	673,258
General	284,905	23,946	2,960	305,891
Total Accumulated Depreciation	5,927,850	360,640	50,366	6,238,124
Total Depreciable Historical Cost, Net	5,850,098	(44,356)	0	5,805,742
Governmental Activities, Capital Assets, Net	\$ 6,059,668	\$ (44,356)	\$ 0	\$ 6,015,312

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 3: CAPITAL ASSETS (Continued)

	Capital Cost			
	Beginning Balance	Additions	Disposals	Ending Balance
Business-Type Activities:				
General	\$ 223,277	\$ 9,052	\$ 2,500	\$ 229,829
Less accumulated depreciation.....	(177,489)	(12,143)	(2,500)	(187,132)
Business-Type Activities, Capital Assets, Net	\$ 45,788	\$ (3,091)	\$ 0	\$ 42,697

Depreciation expense was charged to governmental functions as follows:

Instruction.....	\$ 49,046
Support services:	
Student.....	2,794
Instructional staff.....	11,090
District administration	10,013
School administration	6,415
Other.....	24
Plant operations and maintenance	249,469
Student transportation	31,717
Business	72
Total Depreciation Expense	\$ 360,640

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 4: LONG-TERM DEBT

The original amount of each issue, the issue date and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1996	\$ 1,915,000	4.00%—5.20%
1998	745,000	4.25%
2001	740,000	3.80%—5.00%
2001R	330,000	3.65%
2002	125,000	3.00%—4.20%
2004R	1,535,000	2.125%—3.80%

► *Advance Refunding — December 1, 2004*

On December 1, 2004, the District issued \$1,535,000 of General Obligation Refunding Bonds with interest rates ranging from 2.125% to 3.80% to partially refund \$1,435,000 of 1996 Series bonds with interest rates ranging from 4.90% to 5.20%. The net proceeds of \$1,498,235 (after payment of \$36,765 in underwriting fees, discount and other issuance costs) were transferred to the escrow agent to provide future debt service payments on the 1996 Series bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$63,236. This amount is a deduction from bonds payable and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 9 years by \$85,277 and resulted in an economic gain of \$71,934.

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Funds, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Russellville Independent School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 4: LONG-TERM DEBT (Continued)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2005 for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2005–2006	\$ 123,017	\$ 235,000	\$ 358,017
2006–2007	108,979	240,000	348,979
2007–2008	98,835	255,000	353,835
2008–2009	89,065	275,000	364,065
2009–2010	78,754	280,000	358,754
2010–2011	67,768	290,000	357,768
2011–2012	58,732	300,000	358,732
2012–2013	47,815	305,000	352,815
2013–2014	36,635	310,000	346,635
2014–2015	24,663	325,000	349,663
2015–2016	11,724	330,000	341,724
	<u>\$ 745,987</u>	<u>\$ 3,145,000</u>	<u>\$ 3,890,987</u>

Maturities of other debt are as follows for the fiscal year ending:

<u>June 30,</u>	
2006	\$ 33,386
2007	34,791
2008	23,939
2009	23,763
2010	18,046
Thereafter	17,288
	<u>\$ 151,213</u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 4: LONG-TERM DEBT (Continued)

Changes in long-term debt are as follows:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005	Amounts Due Within One Year
Bonds and notes payable:					
Bonds.....	\$ 3,260,000	\$ 1,535,000	\$ (1,650,000)	\$ 3,145,000	\$ 235,000
Less deferred issuance discount.....	0	(19,187)	959	(18,228)	0
Less deferred amount on refunding	0	(63,235)	18,278	(44,957)	0
Total Bonds and Notes Payable	3,260,000	1,452,578	(1,630,763)	3,081,815	235,000
Other liabilities:					
Other	185,134	0	(33,921)	151,213	33,386
Compensated absences	424,662	25,871	(131,215)	319,318	102,926
Total Other Liabilities	609,796	25,871	(165,136)	470,531	136,312
Total Long-Term Liabilities	\$ 3,869,796	\$ 1,478,449	\$ (1,795,899)	\$ 3,552,346	\$ 371,312

Commitments under non-cancellable operating lease agreements for equipment as of June 30, 2005 are as follows:

<u>June 30,</u>	
2006	\$ 25,813
2007	25,813
2008	11,677
2009	10,524
2010	7,893
	<u>\$ 81,720</u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 5: PENSION PLANS

► *Plan Descriptions*

The Russellville Independent School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees' Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issues a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

► *Funding Policy*

KTRS and CERS plan members are required to contribute 9.855% and 5.0%, respectively, of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS and CERS is 13.105% and 8.48% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2005, 2004 and 2003 were \$113,406, \$96,237 and \$82,956, respectively, equal to the required contributions for each year.

For the year ended June 30, 2005, the Commonwealth contributed \$526,358 to the KTRS for the benefit of the District's participating employees. The District's contributions to the KTRS for the year ending June 30, 2005 were \$36,843, which represents those employees covered by federal programs.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 5: PENSION PLANS (Continued)

The amount recognized for revenues and expenditures for on-behalf payments relating to fringe benefits for the year ended June 30, 2005 was \$1,588,315 for governmental funds.

NOTE 6: CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE 7: INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for errors and omissions and general liability coverage and fleet, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage.

The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 9: EXCESS EXPENDITURES OVER
 APPROPRIATIONS**

The District has no funds with a deficit fund balance. However, the following funds had excess current year expenditures over current year appropriated revenues:

Fund	Amount
Community Education	\$ 500

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 10: FUND TRANSFERS

Fund transfers for the year ended June 30, 2005 consist of the following:

Type	From Fund	To Fund	Purpose	Amount
Operating	General Fund	Special Revenue	Matching	\$ 14,986
Operating	General Fund	Special Revenue	Expenditures	5,936
Operating	SEEK	Debt Service	Debt Service	45,529
Operating	FSPK	Debt Service	Debt Service	318,740

Required Supplemental Information

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2005

	BUDGETED AMOUNTS		ACTUAL (BUDGETARY BASIS)	VARIANCES FAVORABLE (UNFAVORABLE) FINAL TO ACTUAL
	ORIGINAL	FINAL		
REVENUES				
Local and intermediate sources.....	\$ 1,375,000	\$ 1,375,000	\$ 1,771,060	\$ 396,060
State programs.....	4,688,080	4,585,776	4,603,637	17,861
Federal programs	0	0	57,106	57,106
TOTAL REVENUES	6,063,080	5,960,776	6,431,803	471,027
EXPENDITURES				
Current:				
Instruction.....	3,661,080	3,650,442	3,448,604	201,838
Support services:				
Student	315,330	315,330	303,626	11,704
Instructional staff.....	278,194	278,193	270,841	7,352
District administration.....	394,289	359,789	315,010	44,779
School administration.....	537,089	541,970	554,379	(12,409)
Business	233,747	231,247	217,114	14,133
Plant operations and maintenance	1,026,337	998,220	893,030	105,190
Student transportation.....	409,974	409,974	365,792	44,182
Community services.....	27,640	0	0	0
Facilities acquisition and construction.....	975,000	975,000	0	975,000
Debt service	54,000	50,211	42,359	7,852
TOTAL EXPENDITURES	7,912,680	7,810,376	6,410,755	1,399,621

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,849,600)</u>	<u>(1,849,600)</u>	<u>21,048</u>	<u>1,870,648</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers.....	<u>(16,835)</u>	<u>(16,835)</u>	<u>(20,922)</u>	<u>(4,087)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(16,835)</u>	<u>(16,835)</u>	<u>(20,922)</u>	<u>(4,087)</u>
NET CHANGE IN FUND BALANCES	<u>(1,866,435)</u>	<u>(1,866,435)</u>	<u>126</u>	<u>1,866,561</u>
FUND BALANCES — BEGINNING OF YEAR.....	<u>1,866,435</u>	<u>1,866,435</u>	<u>1,866,435</u>	<u>0</u>
FUND BALANCES — END OF YEAR	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,866,561</u>	<u>\$ 1,866,561</u>

EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

Inflows/revenues:	
Actual amounts (budgetary basis).....	\$ 6,431,803
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts.....	<u>1,588,315</u>
Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds	<u>\$ 8,020,118</u>
Outflows/expenditures:	
Actual amounts (budgetary basis).....	\$ 6,410,755
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts.....	<u>1,588,315</u>
Total Expenditures as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds	<u>\$ 7,999,070</u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE SPECIAL REVENUE FUND
For the Year Ended June 30, 2005

	BUDGETED AMOUNTS			VARIANCES FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL (GAAP BASIS)	FINAL TO ACTUAL
REVENUES				
Local and intermediate sources.....	\$ 57,917	\$ 206,067	\$ 213,565	\$ 7,498
State programs	530,479	544,300	536,400	(7,900)
Federal programs	1,036,803	1,086,999	847,784	(239,215)
TOTAL REVENUES	1,625,199	1,837,366	1,597,749	(239,617)
EXPENDITURES				
Current:				
Instruction	1,100,685	1,319,731	1,148,296	171,435
Support services:				
Student.....	78,087	78,593	59,538	19,055
Instructional staff	259,055	244,758	169,033	75,725
District administration	0	15,612	0	15,612
Plant operations and maintenance.....	5,703	4,203	3,355	848
Student transportation.....	61,050	51,691	64,286	(12,595)
Community services.....	175,070	181,292	163,768	17,524
TOTAL EXPENDITURES	1,679,650	1,895,880	1,608,276	287,604
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(54,451)	(58,514)	(10,527)	47,987

OTHER FINANCING SOURCES (USES)

Operating transfers.....	16,835	20,898	20,922	24
TOTAL OTHER FINANCING SOURCES (USES)	<u>16,835</u>	<u>20,898</u>	<u>20,922</u>	<u>24</u>
NET CHANGE IN FUND BALANCES	(37,616)	(37,616)	10,395	48,011
FUND BALANCES — BEGINNING OF YEAR.....	<u>37,616</u>	<u>37,616</u>	<u>37,616</u>	<u>0</u>
FUND BALANCES — END OF YEAR	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 48,011</u></u>	<u><u>\$ 48,011</u></u>

Supplemental Information

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005

	CONSTRUCTION FUND	FSPK FUND	DEBT SERVICE FUND	TOTAL OTHER GOVERNMENTAL FUNDS
ASSETS				
Cash.....	\$ 42,295	\$ 46,295	\$ 7,062	\$ 95,652
TOTAL ASSETS	\$ 42,295	\$ 46,295	\$ 7,062	\$ 95,652
FUND BALANCES				
FUND BALANCES				
Reserved for:				
SFCC	0	46,295	0	46,295
Future construction	42,295	0	0	42,295
Debt service	0	0	7,062	7,062
TOTAL FUND BALANCES	\$ 42,295	\$ 46,295	\$ 7,062	\$ 95,652

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

	<u>CONSTRUCTION FUND</u>	<u>FSPK FUND</u>	<u>DEBT SERVICE FUND</u>	<u>TOTAL OTHER GOVERNMENTAL FUNDS</u>
REVENUES				
From local sources:				
Taxes:				
Property	\$ 0	\$ 118,307	\$ 0	\$ 118,307
Earnings on investments.....	0	1,027	4,054	5,061
Intergovernmental — state.....	0	200,434	0	200,434
TOTAL REVENUES	<u>0</u>	<u>319,768</u>	<u>4,034</u>	<u>323,802</u>
EXPENDITURES				
Current:				
Debt service:				
Principal	0	0	215,000	215,000
Interest.....	0	0	149,269	149,269
Bond issuance cost.....	0	0	14,550	14,550
TOTAL EXPENDITURES	<u>0</u>	<u>0</u>	<u>378,819</u>	<u>378,819</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>0</u>	<u>319,768</u>	<u>(374,785)</u>	<u>(55,017)</u>
OTHER FINANCING SOURCES (USES)				
Bond proceeds	0	0	1,515,813	1,515,813
Payment to refunded bond escrow agent.....	0	0	(1,498,235)	(1,498,235)
Operating transfers	0	(318,740)	364,269	45,529
TOTAL OTHER FINANCING SOURCES (USES)	<u>0</u>	<u>(318,740)</u>	<u>381,847</u>	<u>63,107</u>

NET CHANGE IN FUND BALANCES	0	1,028	7,062	8,090
FUND BALANCES — BEGINNING OF YEAR	<u>42,295</u>	<u>45,267</u>	<u>0</u>	<u>87,562</u>
FUND BALANCES — END OF YEAR	<u>\$ 42,295</u>	<u>\$ 46,295</u>	<u>\$ 7,062</u>	<u>\$ 95,652</u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
June 30, 2005

		COMMUNITY EDUCATION FUND
		<u> </u>
ASSETS		
ASSETS		
Cash.....		\$ 1,220
	TOTAL ASSETS	<u><u>\$ 1,220</u></u>
NET ASSETS		
NET ASSETS		
Unrestricted.....		1,220
	TOTAL NET ASSETS	<u><u>\$ 1,220</u></u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	COMMUNITY EDUCATION FUND
OPERATING REVENUES	
Tuition and fees	\$ 4,689
TOTAL OPERATING REVENUES	<u>4,689</u>
OPERATING EXPENSES	
Instruction	5,189
TOTAL OPERATING EXPENSES	<u>5,189</u>
OPERATING LOSS	<u>(500)</u>
CHANGE IN NET ASSETS	(500)
TOTAL NET ASSETS — BEGINNING OF YEAR	<u>1,720</u>
TOTAL NET ASSETS — END OF YEAR	<u><u>\$ 1,220</u></u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
UNITED WAY 2005
For the Year Ended June 30, 2005

	FAMILY RESOURCE CENTER
REVENUES	
United Way revenue	\$ 9,145
TOTAL REVENUES	<u>9,145</u>
EXPENDITURES	
Community service	3,372
TOTAL EXPENDITURES	<u>3,372</u>
EXCESS OF REVENUES OVER EXPENDITURES	5,773
FUND BALANCES — BEGINNING OF YEAR	<u>0</u>
FUND BALANCES — END OF YEAR	<u><u>\$ 5,773</u></u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
UNITED WAY 2004
For the Year Ended June 30, 2005

	FAMILY RESOURCE CENTER
REVENUES	
United Way revenue	\$ 0
TOTAL REVENUES	<u>0</u>
EXPENDITURES	
Community service	1,699
TOTAL EXPENDITURES	<u>1,699</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(1,699)
FUND BALANCES — BEGINNING OF YEAR	<u>1,699</u>
FUND BALANCES — END OF YEAR	<u><u>\$ 0</u></u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
UNITED WAY 2002
For the Year Ended June 30, 2005

	FAMILY RESOURCE CENTER
REVENUES	
United Way revenue	\$ 0
TOTAL REVENUES	<u>0</u>
EXPENDITURES	
Community service	722
TOTAL EXPENDITURES	<u>722</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(722)
FUND BALANCES — BEGINNING OF YEAR	<u>3,111</u>
FUND BALANCES — END OF YEAR	<u><u>\$ 2,389</u></u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF ASSETS AND LIABILITIES
ALL SCHOOL ACTIVITY FUNDS
ALL AGENCY FUNDS
June 30, 2005

	CASH JUNE 30, 2005	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2005
Russellville High School.....	\$ 43,781	\$ 1,218	\$ 2,864	\$ 42,135
Russellville Middle School	25,802	0	2,308	23,494
Stevenson Elementary School.....	38,776	2,290	1,737	39,329
	\$ 108,359	\$ 3,508	\$ 6,909	\$ 104,958

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
RUSSELLVILLE HIGH SCHOOL
June 30, 2005

	CASH JUNE 30, 2005	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2005
Academic Club.....	\$ 65	\$ 0	\$ 0	\$ 65
Art Club	95	0	0	95
Athletics	6,109	0	0	6,109
Band	125	0	0	125
Band CD	1,661	0	0	1,661
Baseball	6,124	0	0	6,124
Beta Club	22	0	0	22
Bookstore.....	280	0	0	280
Boys Basketball	2,046	0	0	2,046
Cheerleaders	1,422	0	0	1,422
Chorus	7	0	0	7
Drama	407	0	0	407
Fellow of Christian Athletes.....	37	0	0	37
Material Fees	189	0	0	189
FCC Leaders of America.....	799	0	0	799
Football	1,759	0	0	1,759
General	429	0	0	429
Girls Basketball	252	0	0	252
Golf	4,095	0	0	4,095
Lance	215	0	0	215
Library	96	0	0	96
Mary Hope Henry	99	0	0	99
National Honor Society	115	0	0	115
Panther Press	728	0	0	728
Pep Club	517	0	0	517
Photography Club	260	0	0	260
Picture Commission	980	0	0	980
Positive Panther Peers	235	0	0	235
Science Club.....	1,102	0	0	1,102
Senior Class.....	3,041	0	1,914	1,127
Shakespearean Fest.....	203	0	0	203
Soccer.....	3,169	0	0	3,169

	CASH JUNE 30, 2005	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2005
Softball.....	1,758	0	0	1,758
Spanish Club.....	242	0	0	242
Speech Club	84	0	0	84
Student Council.....	142	0	0	142
Swim Team.....	1,217	0	0	1,217
Teacher Lounge.....	41	0	0	41
RHS Tennis.....	38	0	0	38
Greenhouse	322	0	0	322
Technology Students Association	160	1,218	0	1,378
Vending Machines	373	0	0	373
Volleyball.....	1,117	0	0	1,117
Yearbook.....	1,604	0	950	654
	\$ 43,781	\$ 1,218	\$ 2,864	\$ 42,135

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Passed-Through State Department of Education:			
School Breakfast Program	10.553	57604 05	\$ 108,431
National School Lunch Program	10.555	57504 02	242,387
Passed-Through State Department of Agriculture:			
Food Distribution Program	10.555	—	32,443
TOTAL U.S. DEPARTMENT OF AGRICULTURE			383,261
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed-Through State Work Transition:			
Impact Aid	14.854	—	3,804
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			3,804
U.S. DEPARTMENT OF EDUCATION			
Passed-Through State Department of Education:			
Title I Part A — 2004	84.010	35104 01	115,108
Title I Part A — 2005	84.010	35105 01	291,196
Title I Part C Migrant — 2002 Special Travel	84.011	35202 02	739
Title I Part C Migrant — 2004	84.011	35204 02	3,364
Title VI Innovative Education — 2004	84.298A	53304 02	1,799
IDEA Part B Special Education — 2004	84.027	58104 02	29,110
IDEA Part B Special Education — 2005	84.027	58105 02	223,286
IDEA Part B Preschool — 2004	84.173	58704 02	723
IDEA Part B Preschool — 2005	84.173	58705 02	36,530
Title III	84.365	—	3,007
Title III	84.365	—	680
Title I Part C Carl Perkins Voc Education — 2003	84.048	46204 32	361
Title I Part C Carl Perkins Voc Education — 2004	84.048	46205 32	7,916
Rural Education Achievement	84.358B	35004 02	14,544
Rural Education Achievement	84.358B	35005 02	22,654
Title II Part A Teacher Quality — 2004	84.367	71004 02	7,961
Title II Part A Teacher Quality — 2005	84.367	71005 02	70,275
Title IV Safe & Drug Free Schools — 2004	84.186A	59004 02	78
Title IV Safe & Drug Free Schools — 2005	84.186A	59005 02	10,200
Enhancing Education Through Technology — 2004	84.318	73604 02	9
Enhancing Education Through Technology — 2005	84.318	73605 02	5,221
Passed-Through State Workforce Cabinet:			
Community Based Work Transition	84.002	—	13,223
TOTAL U.S. DEPARTMENT OF EDUCATION			857,984

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Passed-Through State Department of Education:			
Service Learning Grant — 2004	94.004	74304 02	48
Service Learning Grant — 2005	94.004	74305 02	2,976
TOTAL U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>3,024</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,248,073</u></u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of ***Russellville Independent School District*** and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2005

04-1 Grant Compliance

During our audit of grant programs, we noted that the District did not maintain documentation of employee time and effort for those employees paid from federal programs. Per OMB Circular A-87, Attachment B, an employee whose compensation is funded solely from a single federal program must furnish a semi-annual certification that he/she has been engaged solely in activities supported by the federal program. An employee paid in part from a single federal program, and in part with funds from other revenue sources, must maintain time and effort records that document the portion of time and effort dedicated to the single federal program, and each program or other cost objective supported by other revenue sources. The employee or the supervisory official having first-hand knowledge of the work performed by the employee must sign these certifications. There are no questioned costs resulting from this noncompliance.

Management Response: It was our understanding OMB Circular A-87 applied only to indirect administrative cost. We have complied with the documentation for administrative personnel paid from federal programs. In the future, the District will implement a procedure to maintain time and effort records that document the direct portion of time and effort dedicated to the single or multiple cost objective. The employee or the supervisory official having first-hand knowledge of the work performed by the employee will sign these certifications.

Current Status: The District's corrective action plan was implemented and no other findings were noted.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for School District Audits
Members of the Board of Education
Russellville Independent School District
Russellville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of ***Russellville Independent School District*** as of and for the year ended June 30, 2005, which collectively comprise ***Russellville Independent School District's*** basic financial statements and have issued our report thereon dated August 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III of the *Independent Auditors' Contract—Electronic Submission*.

● **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or

927 College Street ♦ PO Box 104
Bowling Green, KY 42102-0104
(270) 782-0700 ♦ Fax: (270) 782-0932
1-888-896-5000

167 South Main Street
Russellville, KY 42276
(270) 726-7151 ♦ Fax: (270) 726-3155
1-888-240-7151

operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated August 10, 2005.

● **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the *Independent Auditor's Contract—State Audit Requirements*.

This report is intended solely for the information and use of the members of the **Russellville Independent Board of Education**, Kentucky State Committee for School Districts, management of the **Russellville Independent School District**, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Russellville, Kentucky
August 10, 2005



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for School District Audits
Members of the Board of Education
Russellville Independent School District
Russellville, Kentucky

● **Compliance**

We have audited the compliance of ***Russellville Independent School District*** (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a

927 College Street ♦ PO Box 104
Bowling Green, KY 42102-0104
(270) 782-0700 ♦ Fax: (270) 782-0932
1-888-896-5000

167 South Main Street
Russellville, KY 42276
(270) 726-7151 ♦ Fax: (270) 726-3155
1-888-240-7151

major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

- **Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the members of the ***Russellville Independent Board of Education***, Kentucky State Committee for School

Kentucky State Committee for School District Audits
Members of the Board of Education
Russellville Independent School District

Districts, management of the ***Russellville Independent School District***, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Russellville, Kentucky
August 10, 2005

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2005

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that
are not considered to be material
weakness(es)? ☐ Yes ☒ None reported

Noncompliance material to financial
statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that
are not considered to be material
weakness(es)? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance
for major programs: unqualified

Any audit findings disclosed that are required
to be reported in accordance with section
510(a) of Circular A-133? ☐ Yes ☒ No

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2005

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553 / 10.555	School Food Cluster
84.010	Title I

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

SECTION II — FINANCIAL STATEMENT FINDINGS

None

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None